



NEWS RELEASE

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ALABAMA AIRCRAFT INDUSTRIES, INC. REPORTS FINANCIAL RESULTS FOR THE SECOND QUARTER AND FIRST SIX MONTHS OF 2008 AND PLANS TO DIVEST SUBSIDIARY

BIRMINGHAM, AL (August 18, 2008) – Alabama Aircraft Industries, Inc. (NASDAQ: AAIL), a leading provider of aircraft maintenance and modification services, today announced the operating results for its second quarter and six months ended June 30, 2008. Operating results from continuing operations showed improvement for both the quarter and six months ended June 30, 2008 when compared to the comparable periods in 2007. Losses from continuing operations for the second quarter of 2008 were \$1.1 million compared to losses from continuing operations for the second quarter of 2007 of \$1.2 million. Revenue from continuing operations for the second quarter of 2008 was \$12.5 million versus revenue from continuing operations of \$15.8 million in the second quarter of 2007. Income from continuing operations for the first six months of 2008 was \$0.3 million compared with losses from continuing operations of \$1.4 million for the first six months of 2007. Revenue from continuing operations for the six months ended June 30, 2008 was \$32.1 million, compared to revenue from continuing operations of \$35.4 million for the six months ended June 30, 2007.

Including the results of discontinued operations, the net loss for the second quarter of 2008 was \$2.4 million compared to net income for the second quarter of 2007 of \$0.6 million. Net losses for the first six months of 2008 were \$1.6 million compared with net income of \$1.5 million in the first six months of 2007. The Company's results of operations for the quarter and six months ended June 30, 2007 were positively impacted by the profitability of the Commercial Services Segment ("CSS") which was divested in the third quarter of 2007. The Company's results of operations for the quarter and six months ended June 30, 2008 were negatively impacted by losses incurred by its Space Vector Corporation subsidiary ("SVC"). The Board of Directors of AAIL in the second quarter of 2008 approved a plan to divest SVC. Both the results of the CSS and SVC are presented as discontinued operations for all periods reported in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 filed with the Securities and Exchange Commission.

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Ronald Aramini, Alabama Aircraft's President and Chief Executive Officer, stated "Our efforts to increase productivity and control expenses have been a significant factor in improving our results of operations in the second quarter and first six months of 2008. We are working hard to obtain new U.S. Government contracts to grow our business and we are beginning to see successful results from our efforts. We are a significant subcontractor to several of the prime contractors recently awarded the Future Flexible Acquisition and Sustainment Tool Contract ("F2AST"). We expect the F2AST contract will be used by the U.S. Air Force to procure a large amount of C-130 maintenance work. We have other current proposals, as well as future proposal opportunities, to perform maintenance work on C-130 and P-3 aircraft. The majority of these opportunities are expected to generate work beginning in the fall of 2008 and into 2009. We intend to sell SVC and conserve cash to fund these future work opportunities. Our cash balance increased by \$2.5 million in the second quarter."

Mr. Aramini further stated "Our efforts to overturn the KC-135 contract award to The Boeing Company are continuing. While the U.S. Government Accountability Office ("GAO") initially upheld part of our protest, they ultimately denied our protest. We strongly believe the case we made before the GAO has merit. Therefore, we have taken our case to the U.S. Court of Federal Claims. We have continued to induct additional KC-135 aircraft while the U.S. Court of Federal Claims reviews our case. The KC-135 contract has generated approximately 80% of the Company's revenue from continuing operations over the past five years."

Second Quarter 2008 vs. 2007 Results

Summary of comparative results for the second quarter ended June 30:
(Dollars in Millions)

	<u>2008</u>	<u>2007</u>	<u>% Change</u>
Revenue	\$ 12.51	\$ 15.78	(20.7%)
Gross profit	1.21	0.68	77.9%
Operating loss from continuing operations	(0.94)	(1.79)	47.5%
Loss from continuing operations before taxes	(1.13)	(1.98)	42.9%
Loss from continuing operations	(1.06)	(1.18)	10.2%
Net (loss) income	(2.44)	0.63	(487.3%)
EBITDA* from continuing operations	(0.52)	(1.36)	61.8%

- * A description of the Company's use of non-GAAP information is provided below under "Use of Non-GAAP Financial Measures." A reconciliation of the income (loss) from continuing operations to EBITDA from continuing operations is provided at the end of this press release. The Company defines "operating income (loss) from continuing operations", as shown in the above table, as revenue from continuing operations less cost of revenue, less selling, general and administrative ("SG&A) expenses.

The Company's 2008 second quarter revenue decreased \$3.3 million as compared to 2007 second quarter revenue. Revenue from the KC-135 PDM program decreased \$1.4 million during the second quarter of 2008 versus the second quarter of 2007. The KC-135 program, which accounted for 82% of revenue in the second quarter of 2008 and 73% of revenue in the second quarter of 2007, allows for the Company to provide services on PDM aircraft, drop-in aircraft, and other aircraft related areas. During each of the second quarter of 2008 and second quarter of 2007, the Company delivered three PDM aircraft and no drop-ins. Revenue decreased on the KC-135 program in the second quarter of 2008 versus the second quarter of 2007 due to a decrease in the contractual price for each aircraft delivered. The Company did not deliver any P-3 aircraft in the second quarter of 2008 versus one P-3 aircraft in the second quarter of 2007, resulting in a decrease in P-3 revenue of \$1.4 million. The Company is continuing to pursue additional contracts to perform maintenance services on P-3 aircraft. Revenue decreased \$0.5 million under contracts to perform non-routine maintenance work on other aircraft, primarily USAF C-130 aircraft.

Gross profit increased from \$0.7 million during the second quarter of 2007 to \$1.2 million during the second quarter of 2008. Gross profit on KC-135 revenue decreased \$0.2 million due to decreased revenue. Cost of revenue on the KC-135 program decreased as a percentage of revenue due to increased efficiencies on the KC-135 maintenance line. Gross profit increased \$0.9 million as a result of losses on the P-3 program recorded in the second quarter of 2007 for which there were no comparable losses in the second quarter of 2008.

Selling, general and administrative ("SG&A") expenses decreased \$0.3 million during the second quarter of 2008 compared to the second quarter of 2007. The Company made expense reductions of \$0.9 million in the second quarter of 2008 as compared to the second quarter of 2007. These expense reductions were partially offset by \$0.6 million of legal fees associated with the KC-135 contract protest and legal action. During the second quarter of 2007, the Company incurred \$0.6 million of corporate SG&A expenses that previously had been allocated to PWAS and SVC for segment reporting purposes. Under accounting principles generally accepted in the United States, these allocated amounts are recorded in continuing operations rather than discontinued operations.

Total interest expense, (including amounts that are included in discontinued operations of \$0.9 million), decreased to \$0.2 million in the second quarter of 2008 from \$1.1 million in the second quarter of 2007. Interest expense decreased primarily as a result of the extinguishment of a large portion of the Company's debt when PWAS was sold.

During the second quarter of 2008, the Company recorded income tax expense at an effective rate of 6.2% for continuing operations as a result of utilizing net operating loss carryforwards which previously were subject to a deferred tax valuation allowance. At June 30, 2008 and December 31, 2007, all deferred tax assets were subject to a deferred tax valuation allowance. During the second quarter of 2007, the Company recorded income tax benefits at an effective rate of 40.3%. The effective income tax rate is impacted by the allocation of taxable gains or losses between operations in Alabama and California. Net operating loss carry forwards for discontinued operations in California were subject to a deferred tax valuation allowance in the second quarter of 2007.

Results from Discontinued Operations

Revenue at SVC decreased from \$3.4 million in the second quarter of 2007 to \$0.5 million in the second quarter of 2008. The decrease in revenue is due to the completion or decreased scope of work on several engineering and manufacturing contracts. SVC recorded \$1.4 million in losses in the second quarter of 2008 as a result of the decrease in revenue and for cost overruns on a material battery contract.

Six Months 2008 vs. 2007 Results

Summary of comparative results for the six months ended June 30:
(Dollars in Millions)

	<u>2008</u>	<u>2007</u>	<u>% Change</u>
Revenue	\$ 32.12	\$ 35.41	(9.3%)
Gross profit	5.80	3.36	72.6%
Operating income (loss) from continuing operations	0.76	(2.03)	137.4%
Income (loss) from continuing operations before taxes	0.36	(2.40)	115.0%
Income (loss) from continuing operations	0.26	(1.37)	119.0%
Net (loss) income	(1.61)	1.52	(205.9%)
EBITDA* from continuing operations	1.70	(1.17)	245.3%

* A description of the Company's use of non-GAAP information is provided below under "Use of Non-GAAP Financial Measures." A reconciliation of the income (loss) from continuing operations to EBITDA from continuing operations is provided at the end of this press release. The Company defines "operating income (loss) from continuing operations", as shown in the above table, as revenue from continuing operations less cost of revenue, less selling, general and administrative ("SG&A") expenses.

The Company's revenue for the first six months of 2008 declined \$3.3 million from revenue for the first six months of 2007. Revenue from the KC-135 PDM program increased \$0.4 million during the first six months of 2008 versus the first six months of 2007. The KC-135 program, which accounted for 82% of revenue in the first six months of 2008 and 73% of revenue in the first six months of 2007, allows for the Company to provide services on PDM aircraft, drop-in aircraft, and other aircraft related areas. During each of the first six months of 2008 and first six months of 2007, the Company delivered seven PDM aircraft and no drop-ins. Revenue increased on the KC-135 program in the first six months of 2008 versus the first six months of 2007 due to an increase in the contractual price for each aircraft delivered. The Company delivered one P-3 aircraft in the first six months of 2008 versus three P-3 aircraft in the first six months of 2007, resulting in a decrease in P-3 revenue of \$2.5 million. The Company is continuing to pursue additional contracts to perform maintenance services on P-3 aircraft. Revenue decreased \$1.2 million under contracts to perform non-routine maintenance work on other aircraft, primarily USAF C-130 aircraft.

Gross profit increased from \$3.4 million during the first six months of 2007 to \$5.8 million during the first six months of 2008. Gross profit on KC-135 revenue increased \$1.4 million due

to increased revenue and improvements in productivity. Cost of revenue on the KC-135 program decreased as a percentage of revenue due to increased efficiencies on the KC-135 maintenance line. Gross profit increased \$1.1 million as a result of losses on the P-3 program in the first six months of 2007 for which there were no comparable losses in the first six months of 2008.

SG&A expenses decreased \$0.3 million during the first six months of 2008 compared to the first six months of 2007. The Company made expense reductions of \$1.8 million in the first six months of 2008 as compared to the first six months of 2007. These expense reductions were partially offset by \$1.0 million of legal fees associated with the KC-135 contract protest and legal action. Also, during the first six months of 2008, the Company forgave a related party receivable and accrued interest of \$0.5 million. During the first six months of 2007, the Company incurred \$1.6 million of corporate SG&A expenses that previously had been allocated to PWAS and SVC for segment reporting purposes. Under accounting principles generally accepted in the United States, these allocated amounts are recorded in continuing operations rather than discontinued operations.

Total interest expense (including amounts that are included in discontinued operations of \$1.7 million) decreased to \$0.4 million in the first six months of 2008 from \$2.1 million in the first six months of 2007. Interest expense decreased primarily as a result of extinguishing a large portion of the Company's debt when PWAS was sold.

During the first six months of 2008, the Company recorded income tax expense at an effective rate of 28.7% for continuing operations as a result of utilizing net operating loss carryforwards which previously were subject to a deferred tax valuation allowance. At June 30, 2008 and December 31, 2007, all deferred tax assets were subject to a deferred tax valuation allowance. During the first six months of 2007, the Company recorded income tax benefits at an effective rate of 43.1%. The effective income tax rate is impacted by the allocation of taxable gains or losses between operations in Alabama and California. Net operating loss carry forwards for discontinued operations in California were subject to a deferred tax valuation allowance in the first six months of 2007.

Results from Discontinued Operations

Revenue at SVC decreased from \$5.0 million in the first six months of 2007 to \$2.0 million in the first six months of 2008. The decrease in revenue is due to the completion or decreased scope of work on several engineering and manufacturing contracts. SVC recorded \$1.9 million in losses in the first six months of 2008 as a result of the decrease in revenue and for cost overruns on a material battery contract.

**Use of Non-GAAP Financial Measures*

The Company presents Earnings Before Interest, Taxes, Depreciation and Amortization from continuing operations, more commonly referred to as EBITDA from continuing operations, because its management uses the measure to evaluate the Company's performance and to allocate resources. In addition, the Company believes EBITDA is an important gauge used by commercial banks, investment banks, other financial institutions, and current and potential investors, to approximate its cash generation capability. Accordingly, the Company has included EBITDA as part of this report. The depreciation and amortization amounts used in the EBITDA

calculation are those that were recorded in the consolidated statements of operations in this report. Due to the long-term nature of much of the Company's business, the depreciation and amortization amounts recorded in the consolidated statements of operations will not directly match the change in accumulated depreciation and amortization reflected on the Company's consolidated balance sheets. This is a result of the capitalization of depreciation expense on long-term contracts into work-in-process. EBITDA from continuing operations is not a measure of financial performance under generally accepted accounting principles in the United States ("GAAP") and should not be considered as a substitute for or superior to other measures of financial performance reported in accordance with GAAP. EBITDA from continuing operations as presented herein may not be comparable to similarly titled measures reported by other companies.

About Alabama Aircraft Industries

Alabama Aircraft Industries, Inc., with executive offices in Birmingham, Alabama, and facilities in Alabama and California, performs maintenance and modification of aircraft for the U.S. Government and military customers. The Company also provides aircraft parts and support and engineering services, in addition to developing and manufacturing rocket vehicles and control systems, and precision components.

This press release contains forward-looking statements made in reliance on the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements may be identified by their use of words, such as "believe," "expect," "intend," "anticipate," "estimate" and other words and terms of similar meaning, in connection with any discussion of the Company's prospects, financial statements, business, financial condition, revenues, results of operations or liquidity. Factors that could affect the Company's forward-looking statements include, among other things: the loss of one or more of the Company's major customers; the Company's ability to obtain additional contracts and perform under existing contracts; the outcome of the Company's legal action protesting the award of the KC-135 contract to Boeing; the outcome of pending and future litigation and the costs of defending such litigation; whether the Internal Revenue Service grants a waiver of certain pension funding obligations; potential environmental and other liabilities; the inability of the Company to obtain additional financing; material weaknesses in the Company's internal control over financial reporting; regulatory changes that adversely affect the Company's business; loss of key personnel; and other risks detailed from time to time in the Company's SEC reports, including its most recent Annual Report on Form 10-K and Quarterly Report on Form 10-Q. The Company cautions readers not to place undue reliance on any forward-looking statements, which speak only as of the date on which they are made. The Company does not undertake any obligation to update or revise any forward-looking statements and is not responsible for changes made to this release by wire services or Internet services.

ALABAMA AIRCRAFT INDUSTRIES, INC.*(In thousands except per share information)*

	Quarter Ended June 30,	
	2008	2007
Revenue	\$ 12,508	\$ 15,776
Cost of revenue	11,295	15,099
Gross profit	1,213	677
Selling, general and administrative expenses	2,153	2,468
Operating loss	(940)	(1,791)
Interest expense	194	187
Loss from continuing operations before taxes	(1,134)	(1,978)
Income tax benefit	(70)	(798)
Loss from continuing operations	(1,064)	(1,180)
(Loss) income from discontinued operations, net of tax	(1,378)	1,806
Net (loss) income	\$ (2,442)	\$ 626
Weighted average common shares outstanding:		
Basic	4,129	4,126
Diluted	4,129	4,126
Net (loss) income per common share:		
Basic loss from continuing operations	\$ (0.26)	\$ (0.29)
Basic (loss) income from discontinued operations	\$ (0.33)	\$ 0.44
Basic net (loss) income per share	\$ (0.59)	\$ 0.15
Diluted loss from continuing operations	\$ (0.26)	\$ (0.29)
Diluted (loss) income from discontinued operations	\$ (0.33)	\$ 0.44
Diluted net (loss) income per share	\$ (0.59)	\$ 0.15
<u>EBITDA Reconciliation*</u>		
Loss from continuing operations	\$ (1,064)	\$ (1,180)
Interest expense	194	187
Income tax benefit	(70)	(798)
Depreciation and amortization	420	427
EBITDA from continuing operations	\$ (520)	\$ (1,364)

ALABAMA AIRCRAFT INDUSTRIES, INC.*(In thousands except per share information)*

	Six Months Ended June 30,	
	2008	2007
Revenue	\$ 32,119	\$ 35,413
Cost of revenue	26,322	32,057
Gross profit	5,797	3,356
Selling, general and administrative expenses	5,039	5,382
Operating income (loss)	758	(2,026)
Interest expense	395	375
Income (loss) from continuing operations before taxes	363	(2,401)
Income tax expense (benefit)	104	(1,035)
Income (loss) from continuing operations	259	(1,366)
(Loss) income from discontinued operations, net of tax	(1,867)	2,888
Net (loss) income	<u>\$ (1,608)</u>	<u>\$ 1,522</u>
Weighted average common shares outstanding:		
Basic	<u>4,129</u>	<u>4,126</u>
Diluted	<u>4,129</u>	<u>4,126</u>
Net income (loss) per common share:		
Basic income (loss) from continuing operations	<u>\$ 0.06</u>	<u>\$ (0.33)</u>
Basic (loss) income from discontinued operations	<u>\$ (0.45)</u>	<u>\$ 0.70</u>
Basic net (loss) income per share	<u>\$ (0.39)</u>	<u>\$ 0.37</u>
Diluted income (loss) from continuing operations	<u>\$ 0.06</u>	<u>\$ (0.33)</u>
Diluted (loss) income from discontinued operations	<u>\$ (0.45)</u>	<u>\$ 0.70</u>
Diluted net (loss) income per share	<u>\$ (0.39)</u>	<u>\$ 0.37</u>
<u>EBITDA Reconciliation*</u>		
Income (loss) from continuing operations	\$ 259	\$ (1,366)
Interest expense	395	375
Income tax expense (benefit)	104	(1,035)
Depreciation and amortization	941	861
EBITDA from continuing operations	<u>\$ 1,699</u>	<u>\$ (1,165)</u>